

## **CITY OF ARLINGTON**

### **Financial Policies**

#### ***Accounting, Budgeting, and Financial Planning***

1. The City will establish accounting practices that conform to generally accepted accounting principles as set forth by the Governmental Accounting Standards Board.
2. An independent certified public accounting firm will perform an annual audit and an official comprehensive annual financial report (CAFR) shall be issued no later than 6 months following year-end.
3. The independent certified public accounting firm shall provide a management letter, if one is issued, no later than March 31 following the end of each fiscal year.
4. The City shall submit the CAFR to the Government Finance Officer's Association (GFOA) for the purpose of earning the Certificate of Achievement for Excellence in Financial Reporting.
5. The City shall prepare an Annual Operating budget and submit it for City Council approval prior to September 30.
6. The Annual Operating Budget shall be prepared such that current revenues plus net operating transfers will be sufficient to support current expenditures.
7. Expenditures from all operating funds shall not exceed the budgeted appropriations (as amended) for these funds.
8. An adequate level of maintenance and replacement will be funded each year to ensure that all capital facilities and equipment are properly maintained.
9. Charges for services and other revenues will be annually examined and adjusted as deemed necessary to respond to cost increases or any other changing circumstances.
10. A 3-year financial forecast shall be prepared annually projecting revenues and expenditures for all operating funds. This forecast shall be used as a planning tool in developing the following year's operating budget.
11. The City shall submit the Annual Operating Budget to the GFOA for the purpose of earning the Distinguished Budget Presentation Award.

### ***Investments***

1. Investments shall be made in conformance with the City's Investment Policy, with the primary objectives of:
  - Safety – preservation of capital in the investment portfolio;
  - Liquidity – portfolio remain sufficiently liquid to meet operating requirements;
  - Yield – goal of rate of return of 102% of U.S. treasury curve at average maturity.

### ***Grants***

1. All grants and other federal and state funds shall be managed to comply with the laws, regulations, and guidance of the grantor, and all gifts and donations shall be managed and expended according to the wishes and instructions of the donor.

### ***Tax Collection***

1. The City shall encourage the Tax Assessor-Collector to follow an aggressive policy of collecting property tax revenues. An average collection rate of at least 98% of current levy shall be maintained.

### ***Self-Insurance & Retirement Funds***

1. All retirement and self-insurance funds will be examined annually to ensure that adequate balances are maintained. Unfunded actuarial liabilities in a retirement program are to be amortized over a 25-year period or less. The self-insurance program for workers' compensation shall be funded at a 75% confidence level, and the APFA self-insurance program shall be funded at a 50% confidence level.

### ***Reserves***

1. The City's working capital reserve in the general fund shall be maintained at a minimum level of 8.33% (1/12<sup>th</sup>) of annual general fund expenditures.
2. The City's general fund unreserved ending balance may only be used for one time purchases like capital equipment.
3. The total general fund balance shall be maintained at a minimum of 15% of annual general fund expenditures.
4. The fund balance in the debt service fund shall be maintained at a minimum level of 4.0% of annual debt service expenditures.

## ***Debt Management***

1. Debt financing which includes permanent improvement bonds, revenue bonds, certificates of obligation, lease/purchase agreements and other obligations allowed under Texas law shall be used to acquire or construct land and improvements that cannot be funded by current revenues. The term of debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed 25 years.
2. Debt will not be used to fund current expenditures.
3. Permanent Improvement Bonds shall normally be issued with a level principal structure. This structure equates to an average life of 11 years or less for a 20-year issue. Interest shall be paid in the first fiscal year after a bond sale and principal must be paid no later than the second fiscal year after the bond sale.
4. Each year the City will adopt a capital improvement plan. The plan will recommend specific funding of projects for the following two fiscal years and will identify projects for further consideration in years three through five.
5. The City is committed to providing continuing disclosure of certain financial and operating data and material event notices as required by Securities and Exchange Commission (SEC) Rule 15c2-12. The Finance Department shall be responsible for the preparation of all disclosure documents and releases required under Rule 15c2-12.
6. The City will obtain a rating from at least one nationally recognized bond-rating agency on all issues being sold on the public market. Required information will be presented to the rating agency(s) at least annually in order to maintain ratings on outstanding debt.
7. The City shall comply with the Internal Revenue Code Section 148 – Arbitrage Regulations for all tax-exempt debt issued. An annual estimate of arbitrage liabilities shall be obtained by the City and recorded on the financial statements.
8. A good faith deposit of 2.0% of the par amount of the bond sale shall be presented by the underwriter in the form of a check or surety acceptable to the City and Bond Counsel prior to the approval of the bonds by the Mayor and City Council.
9. The City shall use a competitive bidding process in the sale of debt unless the use of a negotiated process is warranted due to market timing requirements (refunding), or a unique pledge or debt structure. The City will award competitively issued debt on a true interest cost (TIC) basis.

10. The City welcomes ideas and proposals from investment bankers and will seek to give first consideration to those firms that submit unique and innovative ideas that benefit the City. Unsolicited proposals should be submitted to the City's Finance Department.
11. The selection of an underwriter or group of underwriters for a negotiated sale shall be based on the following factors:
  - Participation in the City's competitive sales;
  - Submission of unique or creative proposals;
  - Qualifications of firm;
  - Size and geographic distribution of their sales staff.
12. All professional service providers selected in connection with the City's debt issuance and management program shall be chosen through a competitive process such as request for proposals (RFP's) on an as needed basis.
13. An advance or current refunding of outstanding debt shall only be considered when present value savings of at least 4.25% of the principal amount of the refunded bonds are produced, unless a debt restructuring or bond covenant revisions are necessary. Savings from refundings will be distributed evenly over the life of the refunded bonds.
14. An analysis of the risks and potential rewards of a derivative product for debt management must be prepared before the structure is selected. The City's Bond Counsel must opine that the City is authorized to enter into the necessary agreements under all existing statutes.
15. The use of reimbursement resolutions shall be encouraged as a cash management tool for debt funded projects. Reimbursement resolutions may be used for any project that has been approved in the City's Capital Budget. Reimbursement resolutions may be used for other projects if the projects are revenue supported or funded within departments' operating budget.
16. The City shall obtain a clear opinion from qualified legal counsel that the City is not liable for the payment of principal and/or interest in the event of default by a conduit borrower. If no such opinion can be obtained, the conduit borrower will be required to purchase insurance or a letter of credit in the City's name in the event of default. Examples of a conduit issuer are special authorities, tax-increment financing districts, public improvement districts, or industrial development issuers.

### ***Debt Management – Ratio Targets***

1. The ratio of net debt (total outstanding tax supported general obligation debt less debt service fund balance) to total taxable assessed valuation shall not exceed 2.0%. This excludes debt of overlapping jurisdictions. The City shall structure its bond issuance to achieve and maintain a debt-to-assessed-value of 2.0% or less.
2. The ratio of debt service expenditures to total expenditures (general fund operating expenditures and debt service combined) shall not exceed 20%.
3. The ratio of outstanding net tax-supported debt to population shall not exceed \$1,060.
4. The Finance Department shall prepare an analysis of the impact of proposed tax-supported debt prior to the issuance of the additional debt. The analysis shall project the debt ratios described in numbers 1, 2 & 3 above as well as any other applicable debt ratios.

### ***Debt Management –Certificates of Obligation***

1. It is the City's priority to fund capital expenditures with cash or voter approved debt. However, non-voter approved debt may be used for capital expenditures as an alternative to lease/purchase or other financing options if the capital expenditure is:
  - Urgent;
  - Necessary to prevent an economic loss to the City;
  - Revenue generating and expected to cover debt service out of the revenue source;
  - Non-voter approved debt is the most cost effective financing option available.
2. The average maturity of non-voter approved debt shall not exceed the average life of the capital items financed.
3. Capital items financed with non-voter approved debt shall have an expected economic life of at least 3 years.

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